

My Turn: Tempe proves tax incentives work - if done right

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Former mayor: Tempe Town Lake wouldn't exist today without the GPLET incentive.

The Salt apartment complex on Rio Salado Parkway entered into a GPLET agreement with Tempe in April 2017. (Photo: Jerod MacDonald-Evoy/The Republic)

Arizona cities have long used tax breaks to encourage business and real estate development. Many of these have been foolish.

But when used properly, they have given taxpayers more than their money's worth. In Tempe, where I served as mayor and a council member for more than 12 years, many such arrangements have brought great results for taxpayers.

Tempe Marketplace is an example. Using incentives, Tempe encouraged a developer to clean up a Superfund site that could have cost taxpayers millions to remediate.

In downtown Tempe, the current city council is saving history and taxpayer dollars by getting developers to preserve the Hayden Flour Mill and Silos as well as the Hayden House, formerly known as Monti's La Casa Vieja. Developers also have built public parking, as with the parking garage at city hall. In each case, the city's costs were merely paid through a tax break instead of a check.

Town Lake wouldn't be here without it

And then there's Town Lake. To create development around it, Tempe has used a Government Property Lease Excise Tax (GPLET) abatement.

Under the original state law that authorized GPLET, a property owner could avoid paying property taxes for eight years, and then get significantly reduced property tax rates for another 32 years.

To get the tax break, a developer simply gives the city title to the developer's property to hold during the tax-break period. When the tax-break period is over, the city just gives the property back to the developer and the tax break ends.

The original purpose for GPLETs was to improve blighted areas through new development. The Tempe Town Lake area was just such a blight 25 years ago, with landfills, junk piles and crime. Tempe Beach Park essentially was abandoned by our community. To convince businesses to invest and help clean up the area, Tempe used GPLET.

While not all tax breaks – even for Town Lake – were warranted, many were crucial to moving that part of Tempe from blight to an amazing sight. The transformation has brought tax revenue to the city, county and state. But sometimes there are hitches that cause confusion about even sensible uses of GPLETs.

Praise, don't criticize, Tempe for this deal

Recently a contractor built a residential building called SALT near Town Lake. The contractor has sued the developer for unpaid bills and included the city in the suit. Some have reported that the city is on the hook for the bills. It's not. Tempe was named in the suit because, as required by the GPLET law, Tempe holds the deed to SALT's land and buildings. Why did the city get into this?

Now that Town Lake is a vibrant destination, one can argue there was no great reason to incentivize SALT with the GPLET tax break and require the city take title to the property. But that wasn't the choice facing the current city council and staff. The developer's rights and the incentive were granted by the city to the SALT property in 1999, before any of the current council even was in office. They had to handle things as they found them.

What the current city council and staff did was chop off the extra 32 years of property tax reductions that the developer might have claimed, so the GPLET lasts for only eight years. Moreover, they also required SALT to pay its full share of annual Town Lake operating costs, which previously often were written off by the city.

Finally, Tempe will not be responsible for the contractor's claim against the SALT developer. Instead, Tempe can simply turn the property back over to the developer and the GPLET is over. The city loses nothing.

The Tempe City Council and staff should be congratulated — not criticized — for achieving the best result that was possible given the challenges they faced.

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